Economic Policy Brief

> *"Giving the private sector more freedom of movement will have automatic impact on employers by the way of preserving their interests through creating many options for recruiting skillful workers as per the supply-demand equation... These measures [are] expected to play a major role in advancing efforts towards creating an efficient efficient labour market and sharpening competitiveness and transformation towards a knowledge-driven economy" Minister Ghobash. (WAM, 2010)."*

The UAE is a country engaged in a massive experiment in labor migration and management. More than 80% of the residents in the country are migrant workers from other countries on fixed term labor contracts. This is among the largest percentage in the world.

In a recent paper with my co-authors Suresh Naidu (Columbia) and Shing-Yi Wang (U Penn) we have studied the effect of the liberalization of the Kafala system and end of the "No-Objection Certifcate" (NOC) system in the United Arab Emirates (UAE). The NOC system existed in the UAE until its abolition by the government in January 2011. It required the notice of consent from employers before workers could leave their existing jobs to work for new employers. If the employer did not renew the contract and did not provide the NOC, the visa system required workers return to their home countries for at least 6 months.

One would expect that the elimination of the NOC would result in an observed increase in the wages of workers, resulting from freer labor markets and a stronger bargaining position of workers. But by how much did the wages increase? What will happen to local job mobility among workers now freed from the NOC requirements? What happens to the exits out of the country with the elimination of this law?

In our paper, we provide a method for computing the "instantaneous" increase in wages due to the NOC. In brief, and ignoring a large number of econometric detail, we look at the wages of people in contracts which expire before the NOC date January 2011 with those who have contracts which start after the NOC date. Our results indicate that worker outcomes improve substantially following a contract expiration that occurs after the reform. Real earnings following a contract expiration increase by over 10 percent.

As workers become freer to move between jobs, one would expect the workers to take advantage of these new liberties and indeed change jobs. Did they? Our results indicate that the monthly rate of employer transitions at the end of a contract more than doubles after the end of the NOC system.

Furthermore, as the labor markets become more favorable to workers, one would expect that workers would be less likely to leave the UAE upon the expiration of a contract, but instead to find a new job before the contract expiration.   Indeed, that is what we find.   Our results indicate that the monthly probability of leaving the UAE at the end of a contract falls by about 4 percentage points (or about 90 percent relative to the mean rate of exits prior to the reform).

Over the longer haul, the matches between workers and employers will improve as workers are able to better search for jobs better suited to their skills, as opposed to being locked up in the very first contract they find.   Furthermore, employers will have a better pool of workers with local work experience to choose from.   The enhanced job-worker matches may result in even better wage levels for workers over time.   It will also result in higher productivity for firms who now have workers better matched in skills with what they as employers need.

Our economic analysis shows the legislation ending the NOC requirement of the Kafala system to be good for workers, and we suspect also good for employers in the long run.